



**ASIC**  
Australian Securities &  
Investments Commission



# Pricewaterhouse- Coopers Australia

## Audit inspection report

1 July 2021 to 30 June 2022

**Report 749 | October 2022**

### **About this report**

This report sets out our findings from reviewing audit files at PricewaterhouseCoopers Australia for the period 1 July 2021 to 30 June 2022 and better practices for PwC to consider in its approach to root cause analysis.

## Introduction

This report includes:

- › findings from reviews that we completed in the 12 months to 30 June 2022 (this year) of key audit areas in selected financial report audits of listed entities and one large unlisted entity conducted by PricewaterhouseCoopers Australia (PwC, the firm)
- › financial reporting surveillance findings relating to entities audited by PwC this year, and
- › better practice considerations from the application of PwC's policies, systems and processes for conducting root cause analysis.

This report:

- › should not be taken to provide assurance that the firm's audits and systems, or audited financial reports, are free of other deficiencies not identified in this report
- › does not include details of enforcement actions underway or finalised in the 12-month period relating to audits (if any) involving members of the firm. For details, refer to the [periodic updates](#) of our enforcement outcomes
- › is intended to communicate our findings in a clear and concise manner to the leadership of the firm who are informed auditing and accounting professionals. Other readers of this report should recognise they may not have the full context of this report and the findings summarised below, and
- › does not represent a balanced scorecard as our negative findings are based on a limited number of audits focusing on higher risk audit areas and does not report on positive audit quality.

We note that the firm and the entities it audits were required to adapt to remote work arrangements; global, national and local travel restrictions; and other impacts of COVID-19 during the period covered by this report.

We consulted an independent external panel on the method of measuring and reporting our findings. The panel discussed and tested the conclusions reached (including firm responses) on a small number of anonymised findings. The panel agreed with our approach to measuring and reporting our findings.

Further details about our audit inspection program this year can be found in [Report 743 Audit inspection report: 1 July 2021 to 30 June 2022](#) (REP 743), including a glossary of key terms. [Report 739 Root cause analysis: Audit firm thematic review](#) (REP 739) outlines good practices in place at some of the largest six firms and better practice recommendations for performing root cause analysis. [Information Sheet 224 ASIC audit inspections](#) (INFO 224) provides further information on our audit firm inspection process.

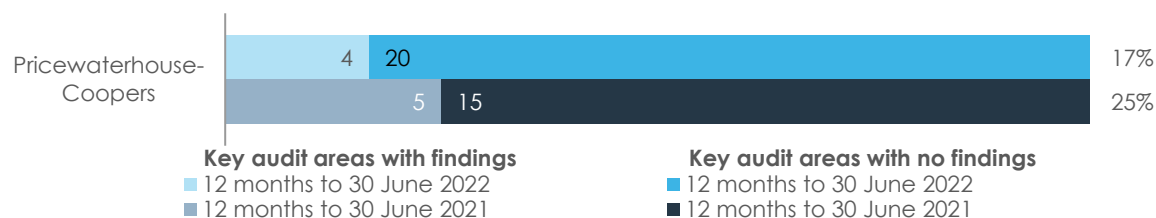
## Our findings

PwC did not, in our view, obtain reasonable assurance that the financial report was free of material misstatement (negative findings) in four of the 24 key audit areas reviewed (17%) across eight audits by the firm this year. This compares to five of the 20 key audit areas reviewed (25%) across eight audits for the 12 months ending 30 June 2021 (last year). See Figure 1.

A limited number of audits and audit areas were selected for review on a risk basis, and so caution is needed in generalising from the results to all audits conducted by the firm and all areas of those audits.

While the level of negative findings has declined this year in comparison to last year, the firm should continue its initiatives to maintain and sustain improved audit quality.

**Figure 1: Negative findings from reviews of key audit areas in audit files**



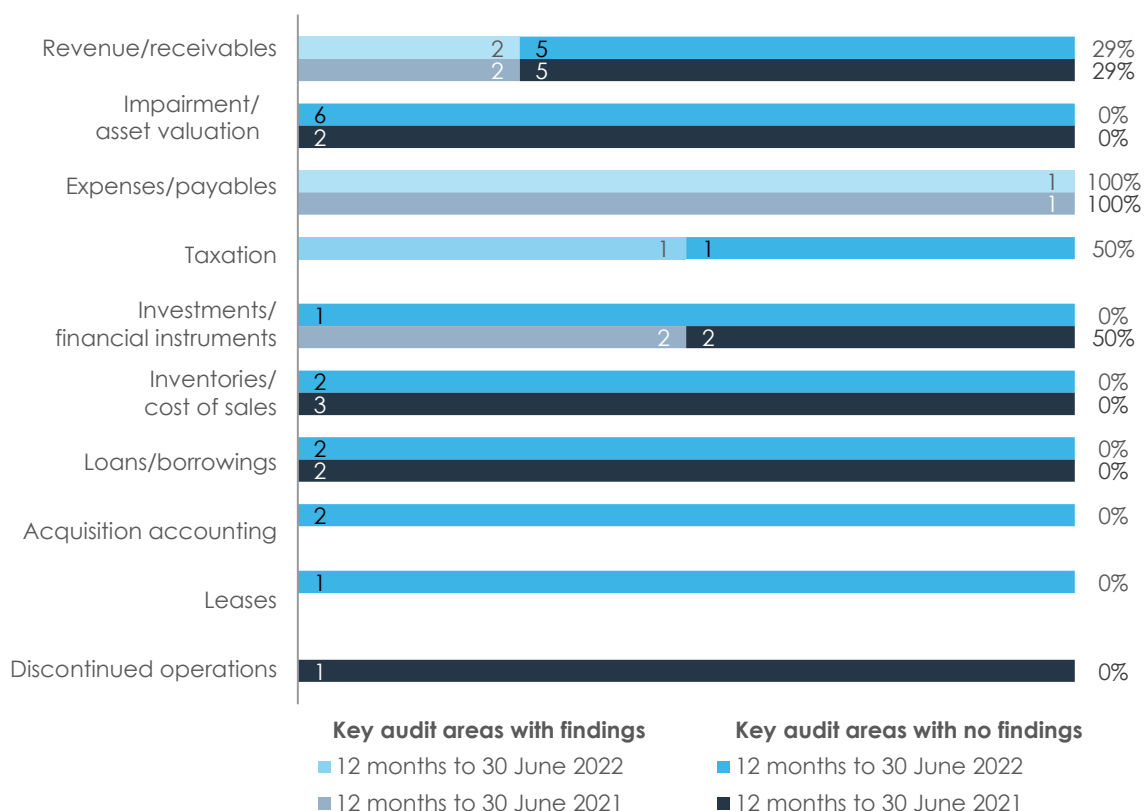
**Note:** See Table 4 for the data shown in this figure (accessible version).

The firm did not agree with all of our findings. The findings do not necessarily mean the financial report was materially misstated. Rather, in our view, the auditor did not have a sufficient basis for their opinion.

The largest number of negative findings relate to audit of revenue and receivables.

Figure 2 shows the areas we reviewed and the frequency of our findings this year and last year.

**Figure 2: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2022 and the 12 months to 30 June 2021**



**Note 1:** See Table 5 for the data shown in this figure (accessible version).

**Note 2:** Comparatives have been restated where required.

Table 1 summarises our findings that were classified as a risk of material misstatement.

**Table 1: Audit review findings—risk of material misstatement**

Entity	Areas with findings	Findings
Entity A	2 of 3 key audit areas reviewed	<ul style="list-style-type: none"> <li>› <i>Royalty revenue</i>—The auditor did not sufficiently evaluate whether the entity's revenue recognition policy complied with accounting standards</li> <li>› <i>Deferred tax</i>—The auditor did not sufficiently test the application of the income tax law to the entity's royalty revenue</li> </ul>
Entity B	2 of 2 key audit areas reviewed	<ul style="list-style-type: none"> <li>› <i>Insurance premium revenue</i>—The auditor did not perform sufficient procedures over the underwriting process and test the application of premium discounts</li> <li>› <i>Outstanding claims liabilities, reinsurance and other recoveries</i>—The auditor did not obtain sufficient evidence to conclude whether key assumptions used to estimate future claims and calculate reinsurance recoveries were reasonable</li> </ul>

Our audit file review findings that did not involve a risk of material misstatement are summarised in Table 2. These findings include matters that could be relevant to obtaining reasonable assurance for the audited entity in future or another audited entity.

**Table 2: Audit review findings—other**

Entity	Findings
Entity B	<ul style="list-style-type: none"> <li>› <i>Premium receivables</i>—The auditor should have more clearly documented the procedures performed to support its risk assessment over the recoverability of a portfolio of premium receivables</li> </ul>

## Financial report findings

We completed risk-based reviews of aspects of 24 financial reports of entities audited by the firm this year. Following our inquiries, one entity made material changes to information previously provided to the market as summarised in Table 3. No changes were made to net assets or profits. More information can be found in [media releases](#) available from the ASIC website.

**Table 3: Financial report findings—media release issued**

Entity	Year end	Findings
Telix Pharmaceuticals Limited	31 December 2021	The company provided disclosure of material business risks that had not been sufficiently disclosed in its operating and financial review See <a href="#">Media Release (22-153MR)</a> ASIC calls for better disclosure of business risks and asset values following financial reports review (23 June 2022)

## Root cause analysis

We performed a detailed review of the firm's approach to root cause analysis by reviewing a sample of two root cause analyses conducted by the firm, and related observations based on benchmarking the largest six firms' processes in conducting root cause analysis at the audit engagement level.

While the firm had implemented a range of good practices in its root cause analysis (RCA) processes, our additional better practice recommendations are summarised below for the firm's consideration:

- › Interviews should include all engagement team members in the area under review including experts, specialist and quality review partners/engagement quality control reviewers.
- › Insights should be obtained from exit interviews to understand the reasons for junior staff departing.
- › An integrated system should be adopted for recording root cause analyses that documents all key steps in the RCA process.

The firm should continue to explore the wide range of underlying root causes in its RCA program on both negative findings and positive outcomes, to ensure that the real root causes are identified and actioned, including the robustness and adequacy of the professional scepticism and supervision and review that contribute to the findings.

[REP 739](#) summarises thematic findings from our review of root cause analysis by audit firms on audit file quality occurrences for the period 1 July 2020 to 31 December 2021. This report also outlines good practices in place at some of the largest six firms and further better practice recommendations for performing root cause analysis.

## Improving audit quality

Negative findings from our limited reviews have declined in recent years. However, the firm should continue to identify and address the root causes for the matters reported from our audit file reviews and for findings from internal and global firm reviews. The firm should also continue with its current initiatives to implement enhanced actions to maintain and sustain improved audit quality.

## Further information

More information on the matters in Figures 1 and 2 and Tables 1, 2 and 3 is contained in [REP 743](#) and detailed comment forms provided separately to the firm. The comment forms include the firm's responses to our findings.

## Appendix: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying data for the figures in this report.

**Table 4: Negative findings from reviews of key audit areas in audit files**

Firm	FY 2021–22 Key audit areas with findings	FY 2021–22 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
PwC	4	24	17%	5	20	25%

**Note:** This is the data shown in Figure 1.

**Table 5: Key audit areas with negative findings, and key audit areas reviewed in the 12 months to 30 June 2022 and the 12 months to 30 June 2021**

Key audit areas	FY 2021–22 Key audit areas with findings	FY 2021–22 Key audit areas reviewed	FY 2021–22 Percentage	FY 2020–21 Key audit areas with findings	FY 2020–21 Key audit areas reviewed	FY 2020–21 Percentage
Revenue/receivables	2	7	29%	2	7	29%
Impairment/asset valuation	0	6	0%	0	2	0%
Expenses/payables	1	1	100%	1	1	100%
Taxation	1	2	50%	0	0	0%
Investments/financial instruments	0	1	0%	2	4	50%
Inventory/cost of sales	0	2	0%	0	3	0%
Loans/borrowings	0	2	0%	0	2	0%
Acquisition accounting	0	2	0%	0	0	0%
Leases	0	1	0%	0	0	0%
Discontinued operations	0	0	0%	0	1	0%
<b>Total</b>	<b>4</b>	<b>24</b>	<b>17%</b>	<b>5</b>	<b>20</b>	<b>25%</b>

**Note 1:** This is the data shown in Figure 2.

**Note 2:** Comparatives have been restated where required.

### About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

### Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations. Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.